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Weekly Investment Commentary

10 September 2018

Economic growth is picking up, which should help stock prices

Investor sentiment was mixed last week. Negatives included concerns about market liquidity, sparked by the rising value of the U.S. dollar and fears of contagion from some emerging markets. Ongoing trade issues also posed a general concern, particularly fears surrounding a potential new round of U.S./Chinese tariffs. On the positive side, investors focused on strong U.S. economic data that pointed to accelerating growth. The negatives won in the end, as the S&P 500 Index fell 1% for the week, after rising during eight of the nine previous trading weeks.[1]

HIGHLIGHTS

- **After rising for most of the last few months, equity prices took a breather last week in the face of liquidity and trade worries.**
- **The U.S. economy appears to be reaccelerating and we see no imminent signs of a recession.**
- **Likewise, we think the risks for stocks are skewed to the upside and expect prices to rise modestly over the next year.**

Robert C. Doll, CFA
Senior Portfolio Manager and Chief Equity Strategist

Bob Doll serves as a leading member of the equities investing team for Nuveen, providing reasoned analysis through equity portfolio management and ongoing market commentary.

Weekly top themes

1. ***The August labor report showed a strong jobs market and increasing wage growth.*** Payroll gains (up 201,000) were ahead of expectations, but , more importantly, the long-awaited acceleration in wages appears to be taking place.[2] Average hourly earnings increased 0.4% for the month and 2.9% year over year, a new cycle high.[2]

2. ***Manufacturing levels are also accelerating.*** The August ISM Manufacturing Index rose from 58.1 to 61.3, its strongest reading since May 2004.[3]

3. ***Improving productivity levels should help continue the economic expansion.*** Rising capital expenditures appear to be improving productivity, which should help profit margins rise and could help suppress inflation.

4. ***Near-term recession risks appear quite low.*** We see no signs of an imminent recession. If anything, we would be more concerned about economic growth overheating and interest rates and bond yields rising.

5. ***Corporate management teams appear to be growing more concerned about trade issues.*** A recent report from Sanford C. Bernstein & Co. shows that companies are now more focused on the negatives from trade than they are on the positives from lower tax rates.[4]

6. ***Although investors are focusing on political negatives, we still see positives from the political backdrop.*** Trade issues rightfully remain in the headlines, but tax reform and an easier regulatory environment have supported consumer spending and helped promote higher capex levels.

7. ***Early indications suggest that 2019 may present a more challenging economic and market environment.*** We believe earnings growth is likely to slow next year, while monetary policy around the world is likely to become less accommodative.

Liquidity concerns appear overstated

Some investors are growing more concerned about shrinking liquidity as the Federal Reserve raises rates and shrinks its balance sheet, the value of the dollar climbs and select emerging markets such as Turkey and Argentina experience currency crises. Of all of these factors, we are most concerned about the rising dollar. The increase is not overly problematic by itself, but we would be more worried if interest rates were higher and rising more quickly and/or if economic growth were decelerating.

On balance, we recognize that market liquidity is growing more constrained and the current economic cycle and equity bull market are in their later stages. But we believe such concerns are overwrought. The global banking system remains healthy and global monetary policy is still relatively easy, which suggests that a liquidity squeeze isn't in the cards.

Trade remains uncertain, but equities should overcome these risks

Trade issues remain a wildcard. Every positive signal from the Trump administration seems to be followed by harsher rhetoric, making it very difficult to forecast the direction of trade issues. The U.S./China relationship remains troubled, Canada's role in NAFTA is unclear and the U.S. is once again taking a harder line toward Europe. We don't expect this confusion to end any time soon, and certainly not before the midterm elections.

Our base case assumption remains that trade issues will continue to cause trouble but won't derail the bull market or end the economic expansion. We expect trade pressures to ease somewhat in 2019. And as long as corporate earnings remain positive and the global economy expands, we see more reasons than not for stock prices to move higher over the coming year.

2018 PERFORMANCE YEAR TO DATE

	Returns	
	Weekly	YTD
S&P 500	-1.0%	8.9%
Dow Jones Industrial Avg	-0.1%	6.6%
NASDAQ Composite	-2.5%	15.3%
Russell 2000 Index	-1.6%	12.5%
Euro Stoxx 50	-3.2%	-7.0%
FTSE 100 (UK)	-2.2%	-6.5%
DAX (Germany)	-3.6%	-11.0%
Nikkei 225 (Japan)	-2.4%	0.4%
Hang Seng (Hong Kong)	-3.1%	-7.5%
Shanghai Stock Exchange Composite (China)	-1.1%	-20.7%
MSCI EAFE	-2.8%	-4.7%
MSCI EM	-3.1%	-9.8%
Barclays US Agg Bond Index	-0.5%	-1.4%
BofA Merrill Lynch 3-mo T-bill	0.0%	1.2%

Source: Morningstar Direct, Bloomberg and FactSet as of 7 Sept 2018. All index returns are shown in U.S. dollars. Past performance is no guarantee of future results. Index performance is shown for illustrative purposes only. Index returns include reinvestment of income and do not reflect investment advisory and other fees that would reduce performance in an actual client account. All indices are unmanaged and unavailable for direct investment.

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For more information or to subscribe, please visit nuveen.com.

1 Source: Morningstar Direct, Bloomberg and FactSet

2 Source: Bureau of Labor Statistics

3 Source: Institute for Supply Management

4 Source: Sanford C. Bernstein, *Trade an Increasing Concern for Corporates,* September 6, 2018

The **S&P 500 Index** is a capitalization-weighted index of 500 stocks designed to measure the performance of the broad domestic economy. The **Dow Jones Industrial Average** is a price-weighted average of 30 significant stocks traded on the New York Stock Exchange and the *Nasdaq*. The **Nasdaq Composite** is a stock market index of the common stocks and similar securities listed on the NASDAQ stock market. The **Russell 2000 Index** measures the performance approximately 2,000 small cap companies in the Russell 3000 Index, which is made up of 3,000 of the biggest U.S. stocks. **Euro Stoxx 50** is an index of 50 of the largest and most liquid stocks of companies in the eurozone. **FTSE 100 Index** is a capitalization-weighted index of the 100 most highly capitalized companies traded on the London Stock Exchange. **Deutsche Borse AG German Stock Index** (DAX Index) is a total return index of 30 selected German blue chip stocks traded on the Frankfurt Stock Exchange. **Nikkei 225 Index** is a price-weighted average of 225 top-rated Japanese companies listed in the First Section of the Tokyo Stock Exchange. **Hong Kong Hang Seng Index** is a free-float capitalization-weighted index of selection of companies from the Stock Exchange of Hong Kong. **Shanghai Stock Exchange Composite** is a capitalization-weighted index that tracks the daily price performance of all A-shares and B-shares listed on the Shanghai Stock Exchange. **MSCI EAFE Index** is a free float-adjusted market capitalization weighted index designed to measure developed market equity performance, excluding the U.S. and Canada. The **MSCI Emerging Markets Index** is a free float-adjusted market capitalization index that is designed to measure equity market performance of emerging markets. **Bloomberg Barclays U.S. Aggregate Bond Index** covers the U.S. investment grade fixed rate bond market. The **BofA Merrill Lynch 3-Month U.S. Treasury Bill Index** is an unmanaged market index of U.S. Treasury securities maturing in 90 days that assumes reinvestment of all income.

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